



STEVE WESTLY
California State Controller

March 21, 2006

Mr. Charles Valdes
Chair, Investment Committee
California Public Employees' Retirement System
Lincoln Plaza, 400 P Street
Sacramento, CA 95814

Dear Mr. Valdes:

Last week, the United Nations Security Council began considering actions against Iran based on a recent International Atomic Energy Agency report. This report renewed concerns about the threat of Iran developing nuclear weapons. I believe CalPERS must do its part to help eliminate that threat.

Since passage of the Iran Nonproliferation Act in 2000, the State Department has imposed sanctions on at least 74 foreign entities. As recently as December 2005, the United States imposed sanctions on nine foreign companies for allegedly selling missile goods and arms material to Iran.

The Iran Nonproliferation Act provides for penalties on entities that transfer equipment or technology that can contribute to Iran's development of weapons of mass destruction. I urge CalPERS action to ensure that we do not have holdings in any companies known to engage in such activity.

The sanctions have included a prohibition on all trade with the United States government, issuance of export licenses, and federal assistance to these entities. The sanctions have also terminated all sales of defense articles, services or design and construction services controlled under the Arms Export Control Act (AECA).

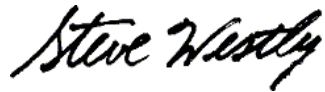
In addition, the Iran-Libya Sanctions Act allows sanctions on foreign companies that invest \$20 million or more in Iran's energy sector within one year. Economic sanctions under this law include denial of Export-Import Bank loans, credits and credit guarantees, denial of U.S. bank loans over \$10 million, denial of licenses for U.S. export of military technology to the sanctioned entity, restriction on imports, prohibition on U.S. procurement, and, if the sanctioned entity is a financial institution, prohibition on service as a dealer in government bonds or as a repository for government funds.

Sanctions imposed under these two federal laws are considerable and would clearly affect a company's financial viability. I request that the CalPERS investment staff consult with the State Department to identify our holdings in companies that violate these laws, and report its findings to the Investment Committee at its April 17 meeting.

As fiduciaries protecting our retirees' benefits, we must act responsibly by taking action against companies sanctioned for facilitating weapons proliferation in Iran. We must also ensure that CalPERS does not in any way support a government determined to slow the growth of democratic and stable governments in the Middle East.

I look forward to working with you and our colleagues on the Board to address this important issue. Please contact my Deputy Chief of Staff, Joy Higa, at (916) 445-2636 if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Steve Westly". The signature is written in a cursive, slightly slanted style.

STEVE WESTLY

SW:jh/sw

cc: Members, CalPERS Board of Administration
CEO Fred Buenrostro
Interim CIO Anne Stausboll